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Social Policy and Redistribution

Chile and Uruguay

JENNIFER PRIBBLE AND EVELYNE HUBER

The rise of the Left in Chile and Uruguay, in 2000 and 2005, respectively, initiated a period of significant social policy reform. Indeed, Chile's Socialist Party (PS) governments of Ricardo Lagos and Michelle Bachelet and Uruguay's Frente Amplio (FA) administration headed by Tabaré Vázquez enacted more significant changes in education, health care, transfer, wage, and tax policy than the other left governments in Latin America. During this same period, Chile and Uruguay also witnessed an impressive reduction in poverty and income inequality (Amarante and Vigorito 2006, 4; ECLAC 2006, online Excel sheet 4). The extent to which this progress can be tied to the social policy initiatives pursued by the left governments is difficult to establish, but careful analysis of the policy reforms reveals that these governments have restructured social policies so as to increase the level of protection available to the poorest sectors of society.

In this chapter we ask two questions: First, we ask whether these governments, exemplifying best-case scenarios in Latin America, have embarked on a viable path toward a sustainable social democratic welfare state. Second, we ask whether and why they differ in their approaches and progress on this path, paying close attention to how the parties' organizational characteristics influence this variation. In their introduction, Levitsky and Roberts classify the left parties in Chile and Uruguay as an "institutionalized partisan Left," distinguishing between an "electoral-professional" Left and a "mass-organic" Left. Uruguay's FA is an example of a mass-organic left party, while Chile's PS is an example of an electoral-professional left party. We contend that this difference in organizational character has important consequences for the types of social policy reform adopted.

Social democratic welfare states are built on the principles of universalistic citizenship or residency-based benefits, in contrast to Bismarckian or conservative welfare states that are built on the principles of employment-based benefits and liberal welfare states that are built on the principles of residual support for those unable to provide for themselves through the market (Esping-Andersen 1990). Social democratic welfare states provide a wide range of public services, whereas conservative and liberal welfare states rely on the family or private organizations for provision of these services. In practice, of course, all existing welfare states have a mixture of programs; basic universalistic programs in social democratic welfare states have been supplemented with employment-based programs, Bismarckian welfare states have social assistance programs of varying generosity for those outside the labor market, and liberal welfare states may have some universalistic programs (Huber and Stephens 2001). Empirically, social democratic parties in Europe have constructed welfare states that are more generous and reduce poverty and inequality to a greater extent than welfare states constructed by any other political forces (Bradley et al. 2003; Moller et al. 2003). Thus, in assessing the trajectory of social policy under left governments in Chile and Uruguay, it makes sense to use movement toward well-financed universalistic citizenship or residency-based programs as a yardstick.

Here one needs to deal with the issue of means- or income-testing, or targeting of social programs. In advanced industrial societies, heavy reliance on means-testing is associated with liberal welfare state regimes, and such assistance is seen as something like charity; universalistic programs are seen in a fundamentally different way, as a social right. This view makes sense in a context where a small minority of the population qualifies for these programs and where there is considerable discretion on the part of the welfare bureaucracy. However, in developing societies, where inequality is extreme and resource constraints are severe, it may make sense to have some kind of a means test, as long as the coverage of the programs is very wide and is established as a citizenship or residency right, with a minimum of discretion.

We therefore focus on the question of whether and how left governments in Chile and Uruguay have altered expenditure levels *and* the coverage of social services and transfers. The issue of expenditure is important because we want to know whether the recent "left turn" has resulted in a heavier emphasis on the "social question," and considering only coverage could mask state efforts to increase the funding of social programs. Similarly, however, analyzing only expenditure is misleading if programs are not restructured so as to reach the poorest sectors of society.

As noted by Levitsky and Roberts in the introduction to this volume, left governments in Latin America have distinguished themselves by increasing the coverage and generosity of transfer payments as well as making improvements in the quality of social services. We analyze this movement in Chile and Uruguay, concentrating on social programs, tax policy, and wage-setting. In order to assess progress toward a social democratic model of political economy, we would have to take into account other labor market policies, economic policies, and general political management as well, which would go way beyond the confines of this chapter.[1] Whereas it is true that the Left in both Chile and Uruguay did not depart much from neoliberalism in trade, financial, and investment policy, it is also true that macroeconomic stability is an essential element of social democratic projects. Moreover, our main focus is on social policy, wage-setting, and taxation, so that we think it is useful to conceptualize the political projects of the Left in these two countries as social democratic, as does Lanzaro (chapter 15).

Our argument in short is that the left governments in both countries have made important steps toward a social democratic restructuring of their welfare states, but that Uruguay has moved farther in that direction than Chile has. Both countries inherited welfare states originally built on Bismarckian principles, with the Chilean one having been reconstructed on the basis of liberal principles under Pinochet. Both of them made progress toward basic universalism, Chile in pensions and Uruguay in pensions and family allowances, as well as in access to health care. Education reform proved more difficult in both countries.

There are four sets of reasons for the greater progress made in Uruguay than in Chile; ideology of the leadership, organizational characteristics of the left parties, strength of the opposition, and policy legacies. Faith in the market—or skepticism with regard to state intervention—and support for private provision of welfare state transfers and services is stronger among the Chilean than the Uruguayan leadership of all the governing parties. Moreover, the political coalition in Chile includes Christian Democrats along with left parties, whereas the FA is made up of leftist factions only. The parties in Chile are electoral-professional parties, that is, leadership-dominated parties with extremely weak ties to the rank and file and no ties to civil society organizations, whereas the FA is a mass-organic organization, with strong ties to the rank and file as well as to civil society organizations. These characteristics are largely a result of the historical evolution of these parties. The Concertación faces a very strong and militantly right-wing opposition with close ties to a well-organized business community, whereas the FA faces two traditional parties with weaker bases and cohesion, weaker ties to business, and a less militantly right-wing orientation. Finally, the Pinochet reforms greatly strengthened the role of private providers in pensions, health, and education, which constitute forces of resistance against social democratic reforms.

Chilean and Uruguayan Social Policy Reform, 2000–2007

Transfer Policies

Important reforms in transfer policy began with the creation of a new social assistance program, Chile Solidario, in 2004, by the Lagos administration. Chile Solidario provides income support to families living in extreme poverty as well as counseling and guidance from state social workers to access a variety of programs (Ruz and Palma 2004; Serrano and Raczynski 2004). The program emerged because of President Lagos's desire to address the lingering problem of extreme poverty.[2] Between 1996 and 2000, the share of individuals living in extreme poverty in Chile had remained constant, while overall poverty levels continued to decline. Participating households must fulfill several commitments outlined in a social contract (Rodríguez 2003). The cash benefit paid to families is quite small, totaling US$21 for the first six months, US$16 for months 7–12, and US$11 for months 13–18.[3] More recently, President Bachelet called for the incorporation of new groups into Chile Solidario, most notably the homeless, and for the creation of a broad social protection system.

In June of 2007, President Bachelet submitted an ambitious pension reform bill that was passed by the Congress and took effect in July 2008. Chile's privatized pension system, which was established during the military dictatorship in 1981 and relies on individual savings, has failed to provide universal coverage. Estimates are that at most 60% of the labor force contribute regularly to the system of private funds (Consejo de Reforma Previsional 2006, 3). Labor market characteristics, such as long periods of unemployment, informal employment, or withdrawal from the market because of family obligations, translate into a situation in which a large share of workers do not accumulate sufficient funds in their private accounts to sustain pension payments. Since benefits are directly tied to one's individual contributions, this generates both a lack of coverage and large inequalities in the size of retirement income. Before the Bachelet reform, access to the state-guaranteed minimum pension required 240 months of contributions during one's working life, a goal beyond the reach of many Chileans. The social assistance pension (PASIS) was also unobtainable for some individuals because they did not qualify according to the country's means test (Consejo de Reforma Previsional 2006, 17–18).

Bachelet's pension reform introduced a solidaristic pillar into the privatized system. This pillar funds old-age, disability, and survivor benefits to uncovered individuals and replaces the previous system of the minimum pension and PASIS. The new benefit will be provided as a "basic universal pension" and will be available to the bottom 60% of the income distribution. In this new system, individuals who did not contribute to a private fund and have no other source of pension income will be granted a monthly benefit of US$150 (El Mercurio 2008). For those individuals who did contribute to a fund during their working life, but who have accumulated very little, the state will subsidize their pension benefit up to a maximum of US$510 per month ("Gobierno sufre revés" 2008).[4]

Bachelet's pension reform also eliminated the distinction between workers in the formal and the informal sectors, requiring both groups to contribute toward individual savings and allowing informal-sector workers access to family allowances and